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Electricity Authority
1 Willis Street
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By email: operationsconsult@ea.govt.nz

Genesis Energy Submission on the Instantaneous Reserve Cost Allocation to Groups of Generating Units

Genesis welcomes the opportunity to provide feedback on the proposed amendment to the way in which instantaneous reserve (**IR**) costs are allocated to generators set out in the Electricity Authority's (**Authority**) 22 July 2024 consultation document.

Genesis:

- Broadly supports the Authority's proposed amendment. The current system has failed to adapt to new technologies and evolving contingent event risks, creating an uneven playing field that disadvantages our thermal generation in particular. The Huntly thermal generation units have borne a disproportionate share of IR costs notwithstanding: (1) the growing risk posed by other generation; and (2) their critical role in maintaining system security.
- Endorses the amendment's objectives of better reflecting the causer-pays principle and adapting to an evolving generation mix and contingent event risk. This will also support the continued availability of our Huntly units, which play a crucial role in maintaining system stability, firming intermittent renewable generation and mitigating dry year risk.
- Considers that a fair transition is also extremely important. The new methodology should not apply to acquisitions or projects that have received final investment decisions in the 24 months before the amendment takes effect for an appropriate period (e.g., 10 years). This approach ensures fair treatment of generators who have made decisions under the existing regulatory framework and protects investor confidence in the sector and New Zealand.

Our response to the specific consultation questions is set out in the Schedule to this letter. Please don't hesitate to contact me should you wish to discuss further.

Yours sincerely

A handwritten signature in blue ink that reads "Williams".

Warwick Williams
Senior Regulatory Counsel and Group Insurance Manager

SCHEDULE

Q1. Do you agree with the description of the issues identified by the Authority? If not, why not?

We largely agree with the Authority's description of the issues. The current IR cost allocation methodology has indeed failed to adapt to new technologies and evolving contingent event risk, creating an uneven playing field. The Authority correctly identifies the risk of this situation worsening as more variable renewable generation enters the market. We suggest that the Authority may wish to consider the long-term consequences of maintaining the status quo, particularly regarding system security and market efficiency. The current system undervalues the flexibility and reliability our Huntly Units provide, which is crucial for firming increasing amounts of intermittent renewable generation and to mitigate dry year risk. The Huntly thermal generation units have borne a disproportionate share of IR costs notwithstanding: (1) the growing risk posed by others; and (2) our critical role in maintaining system security. We also ask that the Authority carefully consider how the amendment is implemented, given the implications for investment decisions that have been taken or which are currently underway in relation to new renewable generation and BESS projects.

Q2. Do you agree with the objectives of the proposed amendment? If not, why not?

Amending the Code to better reflect the intent of a causer-pays methodology, ensuring IR cost allocation adapts to changing market conditions, and implementing a timely change targeted at immediate issues are appropriate objectives. This would ensure that the Huntly thermal units, which play a crucial role in maintaining system stability (and other existing generation units which currently bear IR costs) are not unfairly disadvantaged as New Zealand's generation mix and contingent event risk evolves.

However, a fair transition is also extremely important.

Genesis is firmly of the view that the amended allocation methodology should not apply to any generation or BESS project:

(a) in respect of which a final investment decision has been made by a generator; or

(b) which has been purchased by or on behalf of a generator from a third party,

in the 24 months prior to the amendment taking effect for an appropriate transition period (e.g. 10 years).

This ensures that generators and investors who have made material capital allocation, procurement or design decisions under the existing framework are fairly treated, and would promote investor confidence in the sector and in New Zealand.

Q3. Do you agree the benefits of the proposed amendment outweigh its costs?

The amendment should:

(a) create better incentives for efficient investment and operation across the sector. For our Huntly thermal units, the reduced IR charges arising from the amendment will help support our ability to

provide flexible, reliable generation - firming new renewable generation and mitigating dry year risk;
and

(b) provide welcome clarity for investment decisions concerning renewable and BESS projects.

Q4. Do you think there are any other costs or benefits for the proposed amendment that have not been identified?

Additional matters which the Authority may wish to consider include:

- (a) Potential reduction in overall system costs by more accurately reflecting the true cost of integrating variable renewable generation. Conversely, the increased system costs arising from the inefficient allocation of capital if IR costs are not appropriately allocated.
- (b) Potential second order impacts e.g. allocation of event cost rebates. (We acknowledge that the Authority is not intending at this stage to make changes to the event charge.)
- (c) The wider benefits of supporting the availability of flexible thermal generation for system security.
- (d) The potential risks and costs to investment in new renewable generation if changes are made that affect investment, procurement or design decisions that generators have already made under the existing framework.

Q5. Do you agree the proposed amendment is preferable to the other options? If you disagree, please explain your preferred option in terms consistent with the Authority's statutory objective in section 15 of the Electricity Industry Act 2010.

We agree subject to the comments discussed above.

Q6. Do you agree the Authority's proposed amendment complies with section 32(1) of the Act?

We agree and, for the reasons discussed above, consider that the amendment is both necessary and desirable. It addresses the current inequities in IR cost allocation and should promote more efficient investment and operational decisions.

Q7. Do you have any comments on the drafting of the proposed amendment?

We ask that the Authority consider the following:

- (a) "generating unit" should be defined for these purposes to include BESS.
- (b) The definition of "normal conditions" in clause 8.59A(7) could benefit from further clarification, for example, treatment of planned outages.
- (c) The mechanism for updating the list of at-risk generation (clause 8.59A(4)) should include a provision for stakeholder consultation and notification when changes are made.
- (d) Include a review provision to assess the effectiveness of this amendment after a specified period (e.g. 3 years) and to identify any unintended consequences.